



STATE OF WASHINGTON

OFFICE OF THE FORECAST COUNCIL

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March 11, 2003

TO: Senator Dino Rossi
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FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: MARCH 10, 2003 REVENUE COLLECTION REPORT

General Fund-State collections were \$6.6 million above the estimate in the February 11-March 10 period. Nearly all of the variance was due to another strong month of real estate activity, which generated \$6.0 million more real estate excise tax receipts than expected. Liquor cigarette, timber excise and property tax revenue were also a little above the forecast this month. Revenue Act (retail sales, business and occupation, use and public utility taxes) sources were again virtually right on the estimate for the current period, exceeding the forecast by just \$465,000. Higher than expected receipts this month boosts the cumulative positive variance for the four months since the November forecast to \$43.3 million. Although tax payments are above the forecast, the variance reflects a strong real estate market and a few large, non-recurring audit payments, not an improving economy. The economy remains weak. Nationally, payroll jobs fell by 308,000 the largest decline since November 2001. Uncertainty relating to the impending war with Iraq, as well as a weakening job market, has reduced consumer confidence to the lowest level since 1993. The only bright spot in the economy has been the real estate sector.

Revenue Act taxes were \$465,000 above the forecast for the February 11-March 10, 2003 collection period. Collections this period primarily reflect January 2003 business activity. Although collections were about as expected, they were again quite weak. Revenue Act receipts were only 1.2 percent above a very weak year-ago level after adjusting for special factors. This is a slight improvement from last month's 0.3 percent increase. For the first seven months of the fiscal 2003, Revenue Act receipts are up only 1.3 percent (adjusted for special factors) from a very weak year-ago period. As weak as Revenue Act growth has been, it likely would have been even weaker without very strong growth in the real estate sector. Strong real estate activity fueled by record low mortgage rates has provided a cushion for weakness elsewhere in the economy. However, this boom is likely unsustainable. If real estate activity slows before jobs growth resumes and confidence improves, the economy and revenue growth will likely remain weak.

Preliminary data on taxes paid based in the February 11-March 10 collection period shows positive growth in the retailing sector but declines in most major non-retailing sectors. Within

retailing, the strongest growth was reported by apparel and accessories retailers (+11.3 percent), non-store retailers (+16.0 percent), and furniture and home furnishing stores (+9.4 percent). Electronics retailers, food & beverage stores, drug and health food stores and miscellaneous retailers reported no growth or declines in tax payments. Overall, tax payments by non-retailers were below the year-ago level. Taxes paid by utilities were 15.8 percent below the year-ago level. The manufacturing sector was worse, with tax payments 18.2 percent less than last year. Other major non-retail sectors with year-over-year declines included the information sector (-5.5 percent) and the construction sector (-1.5 percent). There were some gains. Businesses in the professional services sector reported a 10.5 percent increase in tax payments. Other major non-retailing sectors reporting increases were the transportation and warehousing sector (+10.3 percent) and the management, education, and health service sector (+5.6 percent).

Other General Fund taxes collected by the Department of Revenue were \$6.2 million more than the estimate for the month. Another stellar month of real estate activity boosted real estate excise tax payments for the month and accounted for \$6.0 million of the \$6.2 million variance. Most major Non Revenue Act taxes were close to or a little above the forecast for the month. In the four months since the November forecast, higher than expected real estate excise tax payments have accounted for \$29.0 million of the \$34.0 million total non-revenue act variance.

Real estate activity, based on real estate excise tax payments, was stronger than expected in January despite a generally weak economy. January real estate activity reflect real estate closings in January and real estate excise tax payments to the state in February. Statewide, real estate excise activity was up 25.2 percent from the same period a year-ago. This follows four months of double-digit increases, including last month's 45.3 percent increase. Increases in both number of transactions (up 12.1 percent in January) and the average price per transaction (up 11.7 percent in January) have contributed to the growth. Strong real estate growth has occurred despite weak job growth and weakening consumer and business confidence. While the exceptionally low mortgage rates have undoubtedly contributed to the boom in real estate activity, the sustainability of the strong real estate market is problematic without improvement in job growth and confidence.

Department of Licensing General Fund collections were \$34,000 less than the estimate for the month and are \$25,000 below the forecast in the four months since the November 2002 forecast. The attached Table 1 provides a comparison of collections with the forecast for the February 11 - March 10, 2003 collection period and cumulatively since the last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
March 10, 2003 Collections Compared to the November 2002 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
February 11 - March 10, 2003				
Department of Revenue-Total	\$626,505	\$633,176	\$6,671	1.1%
Revenue Act** (1)	568,694	569,159	465	0.1%
Non-Revenue Act(2)	57,811	64,017	6,206	10.7%
Liquor Sales/Liter	6,480	6,843	363	5.6%
Cigarette	4,118	4,275	157	3.8%
Property (State School Levy)	5,036	5,972	936	18.6%
Estate	6,106	6,017	(88)	-1.4%
Real Estate Excise	25,609	31,608	5,999	23.4%
Timber (state share)	1,602	1,996	394	24.6%
Other	8,861	7,306	(1,555)	-17.6%
Department of Licensing (2)	633	599	(34)	-5.4%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$627,138	\$633,775	\$6,637	1.1%
Cumulative Variance Since the November Forecast (November 11, 2002 - March 10, 2003)				
Department of Revenue-Total	\$3,619,281	3,662,572	43,291	1.2%
Revenue Act** (3)	2,732,441	2,741,763	9,322	0.3%
Non-Revenue Act(4)	886,839	920,809	33,970	3.8%
Liquor Sales/Liter	32,449	33,514	1,066	3.3%
Cigarette	16,427	16,969	542	3.3%
Property (State School Levy)	631,515	630,496	(1,019)	-0.2%
Estate	28,040	28,807	768	2.7%
Real Estate Excise	124,411	153,402	28,992	23.3%
Timber (state share)	3,655	4,229	574	15.7%
Other	50,343	53,391	3,047	6.1%
Department of Licensing (4)	2,512	2,487	(25)	-1.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$3,621,793	\$3,665,059	\$43,266	1.2%

1 Collections February 11 - March 10, 2003. Collections primarily reflect January 2003 activity of monthly taxpayers.

2 February 1-28, 2003 collections.

3 Cumulative collections, estimates and variance since the November 2002 forecast; (Nov. 11 - March 10, 2003) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2002 forecast;(November 2002 - February 2003) and revisions to history.

* Based on the November 2002 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
February 10, 2003 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
January 11 - February 10, 2003				
Department of Revenue-Total	\$964,675	\$964,675	\$0	0.0%
Revenue Act (1)	885,191	885,191	0	0.0%
Non-Revenue Act(2)	79,484	79,484	0	0.0%
Liquor Sales/Liter	10,763	10,763	(0)	-0.0%
Cigarette	4,811	4,811	(0)	-0.0%
Property (State School Levy)-net	11,893	11,893	0	0.0%
Property tax collections	11,893	11,893	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	9,744	9,744	(0)	-0.0%
Real Estate Excise	45,310	45,310	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	(3,036)	(3,036)	0	-0.0%
Department of Licensing (2)	589	680	91	15.5%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$965,264	\$965,356	\$92	0.0%

Cumulative Receipts: November 11 - February 10, 2003 & Revisions to History

Department of Revenue-Total	3,030,243	\$3,030,253	\$10	0.0%
Revenue Act (3)	2,173,450	2,173,460	10	0.0%
Non-Revenue Act(4)	856,793	856,793	(0)	-0.0%
Liquor Sales/Liter	26,671	26,671	0	0.0%
Cigarette	12,694	12,694	0	0.0%
Property (State School Levy)-net after transfer	624,524	624,524	0	0.0%
Property tax collections	624,524	624,524	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	22,790	22,790	0	0.0%
Real Estate Excise	121,795	121,795	(0)	-0.0%
Timber (state share)	2,233	2,233	0	NA
Other	46,085	46,085	0	0.0%
Department of Licensing (4)	1,797	1,882	85	4.7%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$3,032,040	\$3,032,135	\$95	0.0%

Preliminary. Reported in the February 10, 2003 collection report.

1 Collections Jan. 11 - Feb. 10, 2003. Collections primarily reflect December 2002 business activity of monthly taxpayers, q4, 2002 activity of quarterly filers and 2002 activity of annual filers.

2 January 1-31, 2003 collections.

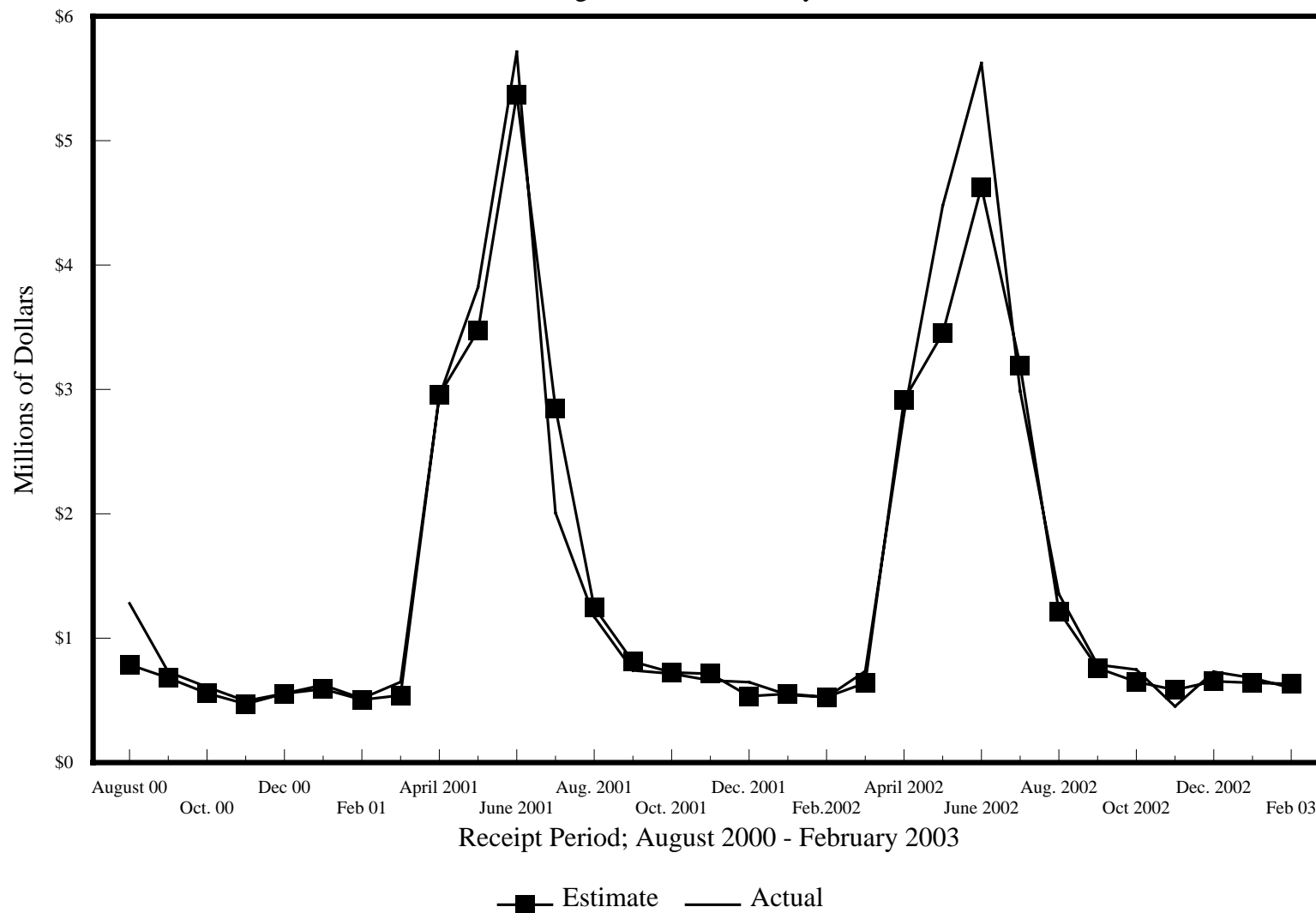
3 Cumulative variance for since the November 2002 forecast: November 11-Feb. 10,2003 & revisions to history.

4 Cumulative variance: since the November 2002 forecast (November - January 2003) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

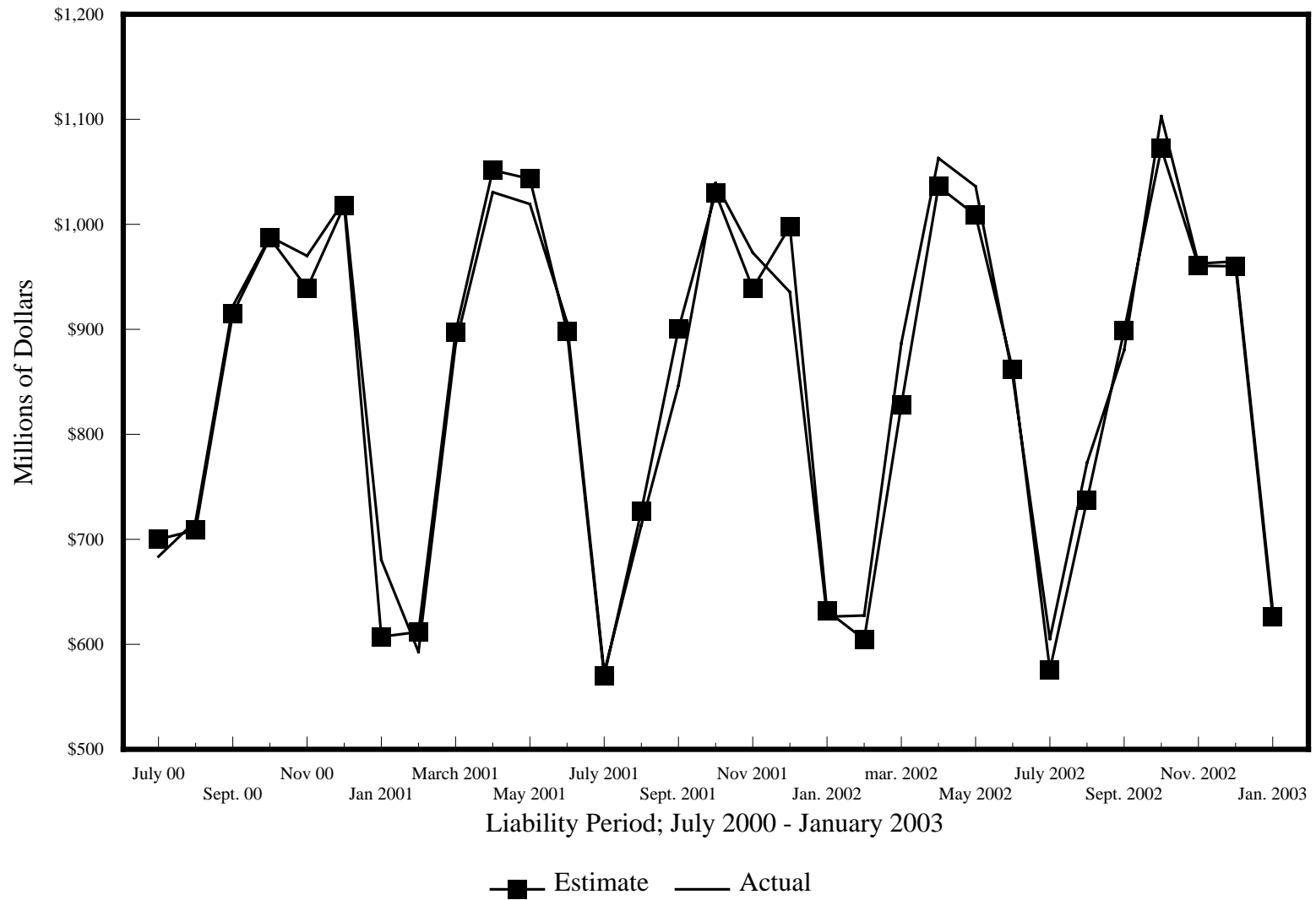
Department of Licensing General Fund-State, Actual vs. Estimate

August 2000 to February 2003



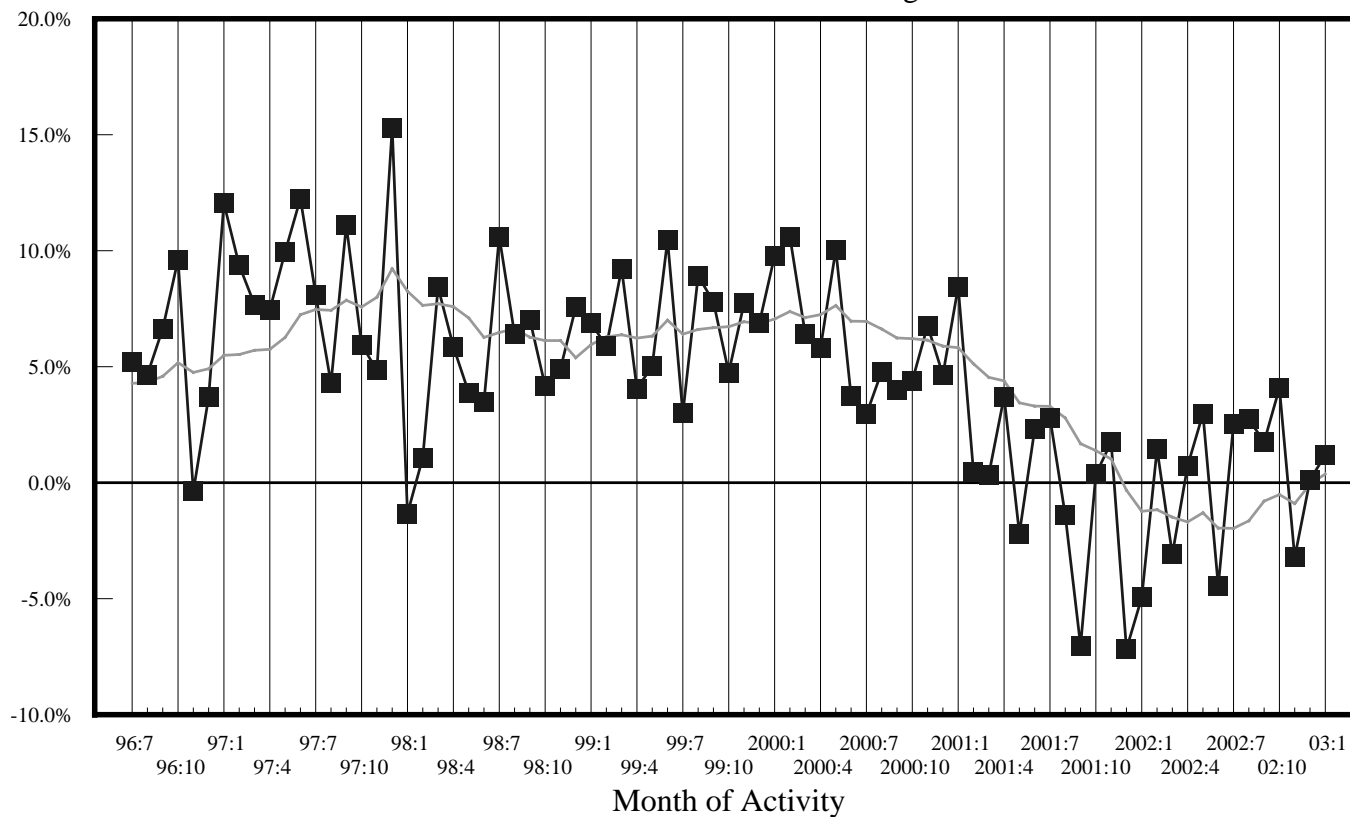
Department of Revenue: General Fund-State, Actual vs. Estimate

July 2000 to January 2003



Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

*Adjusted for special factors